

HENRY A. WAXMAN, CALIFORNIA,
CHAIRMAN

TOM LANTOS, CALIFORNIA
EDOLPHUS TOWNS, NEW YORK
PAUL E. KANJORSKI, PENNSYLVANIA
CAROLYN B. MALONEY, NEW YORK
ELIJAH E. CUMMINGS, MARYLAND
DENNIS J. KUCINICH, OHIO
DANNY K. DAVIS, ILLINOIS
JOHN F. TIERNEY, MASSACHUSETTS
WM. LACY CLAY, MISSOURI
DIANE E. WATSON, CALIFORNIA
STEPHEN F. LYNCH, MASSACHUSETTS
BRIAN HIGGINS, NEW YORK
JOHN A. YARMUTH, KENTUCKY
BRUCE L. BRALEY, IOWA
ELEANOR HOLMES NORTON,
DISTRICT OF COLUMBIA
BETTY McCOLLUM, MINNESOTA
JIM COOPER, TENNESSEE
CHRIS VAN HOLLEN, MARYLAND
PAUL W. HODES, NEW HAMPSHIRE
CHRISTOPHER S. MURPHY, CONNECTICUT
JOHN P. SARBANES, MARYLAND
PETER WELCH, VERMONT

ONE HUNDRED TENTH CONGRESS

Congress of the United States

House of Representatives

COMMITTEE ON OVERSIGHT AND GOVERNMENT REFORM

2157 RAYBURN HOUSE OFFICE BUILDING

WASHINGTON, DC 20515-6143

MAJORITY (202) 225-5051
FACSIMILE (202) 225-4784
MINORITY (202) 225-5074
TTY (202) 225-6852

<http://oversight.house.gov>

TOM DAVIS, VIRGINIA,
RANKING MINORITY MEMBER

DAN BURTON, INDIANA
CHRISTOPHER SHAYS, CONNECTICUT
JOHN M. McHUGH, NEW YORK
JOHN L. MICA, FLORIDA
MARK E. SOUDER, INDIANA
TODD RUSSELL PLATTS, PENNSYLVANIA
CHRIS CANNON, UTAH
JOHN J. DUNCAN, JR., TENNESSEE
MICHAEL R. TURNER, OHIO
DARRELL E. ISSA, CALIFORNIA
KENNY MARCHANT, TEXAS
LYNN A. WESTMORELAND, GEORGIA
PATRICK T. McHENRY, NORTH CAROLINA
VIRGINIA FOXX, NORTH CAROLINA
BRIAN P. BILBRAY, CALIFORNIA
BILL SALI, IDAHO

**Prepared Remarks of Rep. Henry A. Waxman
Chairman, House Committee on Oversight and Government Reform
The Center for American Progress
Forum on a Return to Competitive Contracting
May 14, 2007**

It is an honor to be here among this distinguished group and to speak on such an important topic: federal contracting. I want to thank Scott Lilly and the Center for American Progress for hosting this event, and I want to commend them for the report on federal contracting they are releasing and the leadership they have shown.

Federal procurement policy is often regarded as boring and arcane. Our Committee draws few cameras when we examine proposals to reform federal acquisition regulations. Eyes glaze over and minds wander when members discuss GWACs (government-wide acquisition contracts) and IDIQs (indefinite-delivery, indefinite quantity contracts).

But federal procurement decisions affect the lives of every American. Contractors have become a "shadow government," an enormous workforce of hundreds of thousands of people who perform a vast array of government functions. Lockheed Martin, the largest federal contractor, receives more federal dollars than the Commerce Department, the Interior Department, and Congress combined.

The government has long relied on private contractors to provide goods and services, but today contractors can be found at every agency, performing nearly every function that you can think of. Even the government's contract management is now done by contractors.

In June 2006, I released a report entitled *Dollars, Not Sense: Government Contracting under the Bush Administration*. This report, which is based on a review of over 500 government audits, was the first comprehensive assessment of federal contracting under the Bush Administration.

As the report documents, procurement spending has grown rapidly over the last six years, nearly twice as fast as the rest of the federal budget. The result is that 40 cents of every discretionary federal dollar now goes to private contractors, a record level. This surge in contract spending has enriched private contractors, but it has come at a steep cost to taxpayers through rising waste, fraud, abuse, and mismanagement.

A major problem is that while contract spending has soared, oversight has been discouraged and accountability undermined. The result is that mistakes have been made in

virtually every step of the contracting process: from pre-contract planning, through contract award and oversight, and to recovery of contract overcharges.

Spending on no-bid and other forms of noncompetitive contracts has more than doubled over the last six years. Competition protects the taxpayers by driving prices down and quality up. But too often the incumbent administration has squelched full and open competition. In 2005, almost 40% of all contract dollars were awarded noncompetitively.

Cost-based contracts expose taxpayers to increased risk because the government pays for all contract expenditures. Yet their use has increased by over 75% under the Bush Administration.

Another type of abuse-prone contract — the monopoly contract — was widely used in Iraq, contributing to extensive waste and abuse. Instead of asking Halliburton, Bechtel, Parsons, and other large contractors to bid against each other for individual reconstruction projects, the Administration gave each contractor a monopoly over all the reconstruction work in a sector of Iraq's economy. The result was no competition, shoddy performance, and exorbitant prices.

Procurement reforms instituted in the 1980s and 1990s have been expanded and distorted by the Bush Administration, sometimes beyond recognition. The authority to buy "commercial items" without competitive bidding has been used to purchase military aircraft. Interagency contracts for information technology have become vehicles for hiring interrogators at Abu Ghraib. Travel and purchase cards have been used by wayward officials to buy luxury cruises, stereo equipment, and services at strip clubs.

To promote economic development in Alaska and on tribal lands, Alaska Native Corporations and economically disadvantaged Indian tribes can be awarded federal contracts of any size without any competition. This special privilege was established in the 1980s with the best of intentions. But over the last six years, the ANC preference has been transformed into a major procurement loophole.

In 2000, Alaska Native Corporations received only \$265 million in federal contracts. By 2005, spending on these contracts had ballooned to over \$1 billion per year. The original purpose of the ANC preference was to encourage economic opportunities for Alaska Natives living in Alaska. But agencies have used ANC contracts to manage commercial property in Virginia, renovate buildings in Brazil, and train security guards in Iraq. And much of the work has been done by non-Native companies working as subcontractors.

A large and recurring problem in contract management over the last five years has been insufficient and inept contract oversight. GAO has designated contract management at the Department of Defense, the Department of Energy, and NASA as "high risk" areas due primarily to the lack of oversight. The Inspector General at the Department of Homeland Security has found that a lack of oversight has left the Department vulnerable to procurement waste, fraud, and abuse.

At a hearing of the Oversight Committee in February, we examined two enormous contracts awarded by the Department of Homeland Security: the Coast Guard's \$24 billion Deepwater contract, which has produced a series of lemons that have cost the taxpayer hundreds of millions of dollars, and the Department's \$30 billion SBInet contract with Boeing to design and build a comprehensive border security plan.

Deepwater and SBInet are at completely different stages of the procurement process, but they are both using the same disastrous procurement strategy: virtually every detail is being outsourced from the government to private contractors, including the oversight of the contract.

My staff examined how the Department is overseeing the multi-billion contract with Boeing to secure our borders. And what we learned is that more than half of the staff overseeing the contract are private contractors themselves. Some of these contractors even work for companies that are business partners of Boeing, the company they are supposed to be overseeing.

At the hearing, members asked a simple question: how many contractors are working for the Department of Homeland Security? But the Department had no idea. As a result, the Oversight Committee has launched an investigation to examine how many contractors are working for the Department and what they are doing.

The lack of accountability and oversight is an invitation to abuse. The last six years have seen an explosion of corruption in federal procurement. Darleen Druyun, the former chief acquisition official for the Air Force, negotiated a lucrative deal to lease aircraft from Boeing in exchange for future employment. Former Representative Randy "Duke" Cunningham is now in prison for accepting bribes in exchange for earmarking contracts.

While government contractors are getting rich, the taxpayers are getting soaked. Billions of dollars are being squandered while our nation's most pressing needs have gone unmet. Major government initiatives — border and homeland security, the reconstruction in Iraq, and the recovery effort after Hurricane Katrina — have been undermined by wasteful spending on federal contracts.

The sums involved are staggering. In total, contracts collectively worth over \$762 billion have experienced significant overcharges, contract abuse, or mismanagement under the Bush Administration.

The battle to eliminate waste, fraud, and abuse in federal contracting won't be easy. It will require persistent oversight by Congress. And it will require fundamental reforms in the contracting process.

This Congress has already begun the oversight hearings. In the Oversight Committee — and in other committees across Congress — members are starting to ask what went wrong and to insist on accountability.

Since February, the Oversight Committee has held five hearings on waste, fraud, and abuse in government contracting. These hearings have addressed reconstruction and the use of private security companies in Iraq, contracting at the Department of Homeland Security, and cronyism and political influence at the General Services Administration.

And this is just the beginning. We plan to hold regular hearings on waste, fraud, and abuse through the end of the year and beyond.

The Oversight Committee and the House of Representatives are also processing legislation to address many of the abuses in federal procurement.

The Accountability in Contracting Act (H.R. 1362) passed the House on March 15 by a vote of 347 to 73. The bill would require federal agencies to reduce the use of sole-source contracts; limit the length of sole-source contracts awarded in emergency situations; and curb reliance on expensive cost-plus contracts. The legislation would also promote transparency in the acquisition process by the prompt reporting of overcharges and other procurement abuses to Congress.

Last week, the House passed the Small Business Fairness in Contracting Act (H.R. 1873). A key provision in this legislation — which was added to the bill by the Oversight Committee — begins the process of reforming the use of Alaska Native Corporations in federal procurement.

These efforts have not been partisan. Tom Davis, the ranking member of the Oversight Committee, has worked closely with me in crafting procurement reform. And we have worked together for years on oversight efforts.

I am proud of what the Oversight Committee has done, but it is not enough. Procurement reform is bogged down in the Senate, and the Administration is resisting key provisions. Moreover, the best written laws will do little to curb waste, fraud, and abuse unless there are enough contract managers and government auditors to oversee the burgeoning procurement budget.

I have proposed that 1% of federal procurement spending be set aside for contract management and oversight. Procurement experts can debate whether that is the right percentage. But the need for more resources should not be in dispute: If we can find a way to boost federal spending on contract management, the pay-off for the taxpayer will be immense.

There is a great deal we need to do to restore transparency, accountability, and efficiency to government contracting. Oversight efforts in Congress — and forums like this one — help draw attention to the crisis in federal procurement. And they help lay the foundation for reform.

Thank you for your attention. I look forward to your questions.